California Strategic Sourcing CIO meeting July 16, 2004





The Governor's May Budget Revise proposes the development of a statewide *strategic sourcing* initiative



GOVERNOR'S BUDGET

MAY REVISION

ECONOMIC RECOVERY— A WORKOUT PLAN THAT'S WORKING

When Governor Schwarzenegger took office, the State of California had acculmulated an inherited debt of more than \$22 billion, representing policy and budgetary decisions made by the Legislature and the prior Administration. In the absence of corrective actions to change these policies, the State would continue incurring annual operating deficits, estimated at \$14 billion in fiscal year 2004-05.

In response to such massive and growing debt, the Governor proposed a four-part economic recovery plan. In the four morths since the plan was announced, there has been major progress in every one of its elements:

- In March, the voters approved Proposition 57—The Economic Recovery Bond Act—to refinance a portion of the inherited debt.
- In March, the voters also approved Proposition 58—a constitutional amendment to require balanced budgets with prudent reserves in the future.
- In April, the Legislature passed and the Governor signed a comprehensive reform of the State's workers compensation system, which is the first step in the Governor's plan to improve the business and jobs climate in order to revitalize the State's economy and improve revenue growth over time.
- Finally, the May Revision proposes a budget for 2004-05 that moves toward structural balance.

Key Goals and Objectives

- Identify \$96 million in savings while ensuring fairness and competition in state procurement and maintaining state participation goals
- Transform the state's purchasing capabilities to become best in class through enhancing the skills of state purchasing officials, bringing new tools and re-engineering purchasing processes

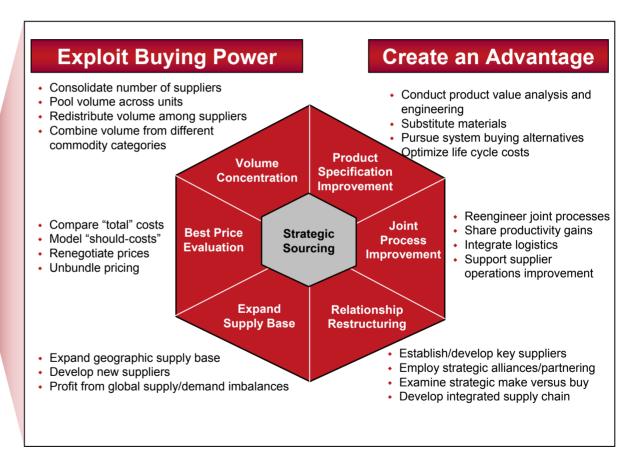






Strategic sourcing is a systematic approach to generating savings by leveraging a combination of strategies









In the public sector, savings needs to be delivered in the context of open competition and fairness

Open Competition



Drivers of Competition

- Broad participation, enabled by effective advertisement and outreach
- Clear and effective processes that provide open transparency into the procurement processes and criteria
- Effective documentation of results and approach

Fairness Considerations





Factors for Consideration

- Disabled Veterans Business Enterprise requirements
- Small business participation goals
- Other federal and special fund requirements

Overall Sourcing Approach



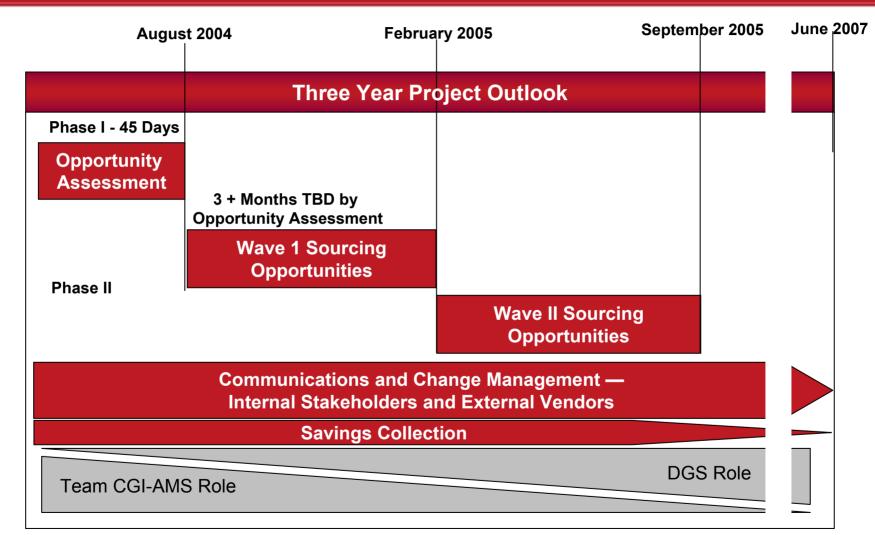
Effective and Balanced Approach to Drive Results

 Competition and fairness used to drive traditional sourcing approach to achieve savings and preserve policy priorities





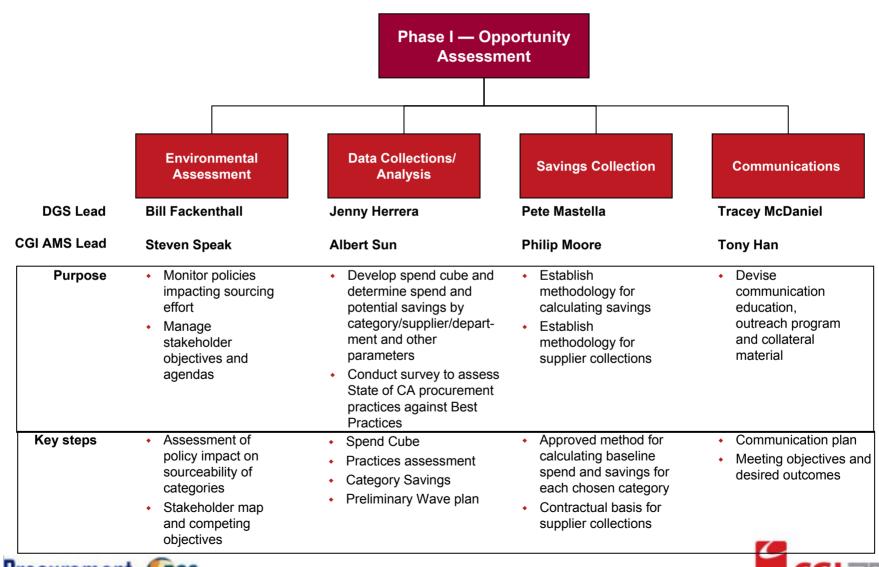
The project will take place over the next three years







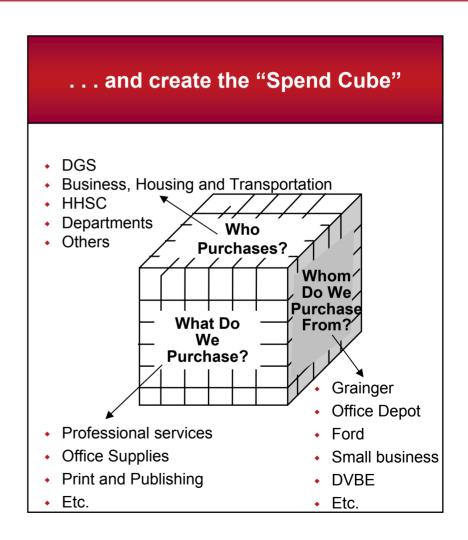
Phase I is composed of four separate workstreams



Data gathering is critical to developing a detailed understanding of state procurement practices and creating the "spend cube"

Gather Spend Data and Develop an Understanding of State Purchasing Practices . . .

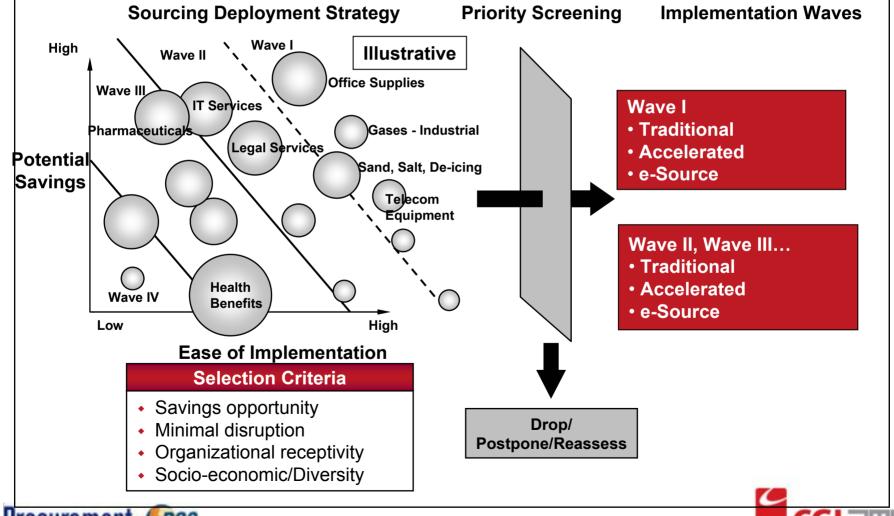
- Collect current purchasing data
- Identify existing supplier base
- Interview key buyers and stakeholders to gain process insights
- Benchmark procurement capabilities with A.T. Kearney leading practices
- Key Data Sources
 - **PIN**
 - SCPRS
 - WSCA
 - State Controller's Office
 - CalStars and other Accounts Payable Systems
 - Key Suppliers' data, as required
 - Key agency-level data sources, as required





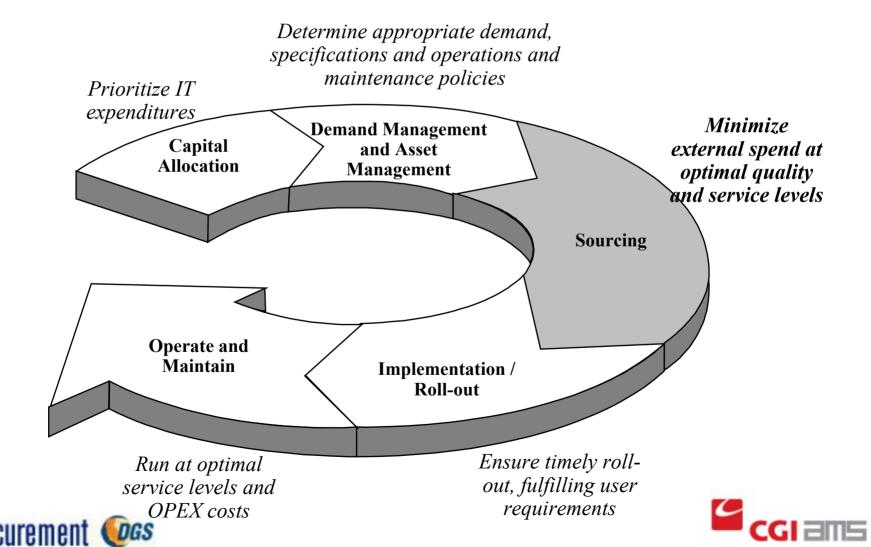


A wave program will result from Phase I, prioritizing each potential sourcing category

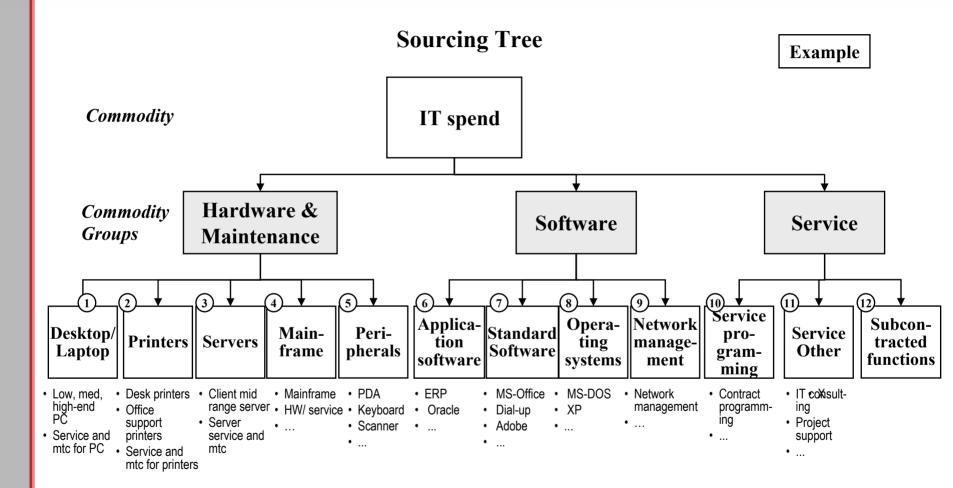


We believe that Sourcing is one of the key drivers for effectively managing IT costs using a total cost of ownership (TCO) approach

Total Cost of Ownership (TCO) Lifecycle



Assessing the sourcing opportunities for IT starts with understanding the spend and structuring appropriate categories

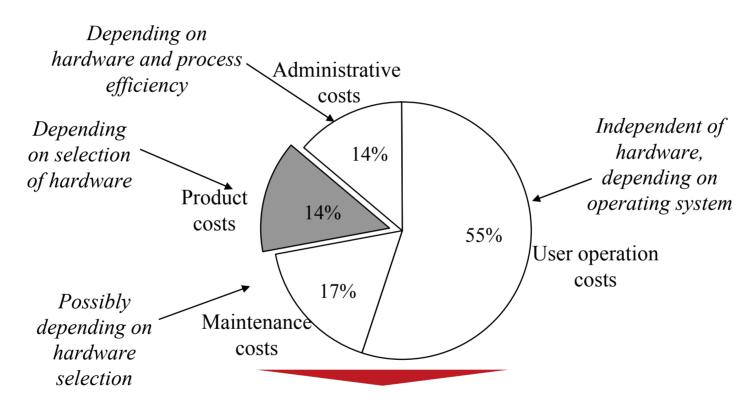






For each category, we use a specific TCO framework and calculation methods

Typical split of hardware costs



Short term saving potentials can be realized be optimizing product costs; however the larger potential lies in the optimization of the total costs

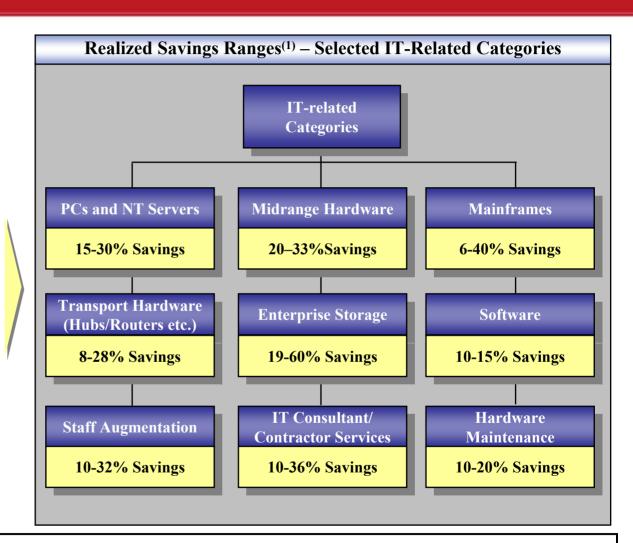




We have deep experience in sourcing complex categories including those within the CIO function

Experience Highlights

- Over the past six years we have sourced more than \$100B in spend across both IT and non-IT categories
- Overall client savings across non-IT categories range from 10% to 20%
- Overall client savings in IT-related categories range from 20% to 30%
- One of our most recent enterprise-wide initiatives (which included IT) covered \$10B in spend and achieved annual savings of over \$1B (10%)



We look forward to working with many of you as we explore these opportunities for the State of California



There are five critical factors that will enable the success of this program

Strong Executive-level Commitment

 Executive level support at the Cabinet and Department level to guide the initiative, communicate the program, help generate internal support and resolve issues as appropriate

Strong Partnership and Knowledge Transfer Between State and Team CGI-AMS

- Leveraging of Team CGI-AMS best in class sourcing knowledge, procurement tools and purchasing best practices to drive savings and enable knowledge transfer
- Leveraging of DGS expertise of purchasing statutes, regulations and pubic policy goals and objectives to enable successful bidding process

Program Transparency

 Rational and well documented sourcing approach and bidding records to inoculate against bidding protests

Clear Communications

 Strong communications with internal customers and external vendors of program goals, processes, roles and responsibilities

Reliable Spend Data and Benefits Tracking System

- Reliable data to drive category targeting, strategy development, savings estimates and negotiations
- Reliable tracking system to monitor savings



